

DEPT. OF INSURANCE
BY C

Docket No. 01A-141-INS

CONSENT ORDER

Respondent

MEGA wishes to resolve this matter without formal proceedings, admits that the following Findings of Fact are true, and consents to the entry of the following Conclusions of Law and Order.

1. MEGA is authorized to transact life and disability insurance in the State of Arizona, pursuant to a Certificate of Authority issued by the Director.

2. The Examiners were authorized by the Director to conduct a market conduct examination of MEGA. The on-site examination covered claims for the period January 1, 1999 through December 31, 1999 and underwriting and other areas for the period from January 1, 1998 through December 31, 1999 and was concluded on June 2, 2000. Based on their findings the Examiners prepared the "Report of Examination of

1 the Market Conduct Affairs of The MEGA Life and Health Insurance Company" dated
2 June 2, 2000.

3 3. The Department previously conducted a market conduct examination of
4 MEGA. The on-site examination was concluded as of December 31, 1991. As a
5 result, a Consent Order, Docket Number 8137 (the "1993 Order"), was filed by the
6 Director on June 29, 1993. The 1993 Order stated in part as follows:

7 MEGA Life shall cease and desist from failing to acknowledge notification
8 of claims within ten (10) working days of their receipt and from failing to
9 notify insureds of the acceptance or denial of claims within fifteen (15)
10 working days of receipt of properly executed proofs of loss, and from
failing to complete investigation of claims within thirty (30) days after
notification of the claims.

11 4. The Examiners reviewed two of two files concerning claims adjudication
12 received during the time frame of the examination and found that MEGA failed to
13 provide an appropriate reply to both files within ten working days of receipt of the
14 insured's correspondence.

15 5. The Examiners reviewed five of five formal appeals received by MEGA
16 during the time frame of the examination and found as follows:

17 a. MEGA failed to acknowledge four formal appeals within five
18 business days of receipt.

19 b. MEGA failed to resolve two formal appeals involving denied claims
20 within 60 days of receipt.

21 c. MEGA failed to provide three insureds whose formal appeals were
22 upheld of their right to proceed to an external independent review.

23 6. The Examiners reviewed 58 of 2700 new business issued files and 54 of
24 110 new business declined files and found that MEGA failed on five files when
25 responding to a request for personal information regarding an adverse underwriting

1 decision to provide the individual with a summary of the procedures to request
2 correction, amendment or deletion of the information.

3 7. The Examiners reviewed 75 of 13,238 claims paid by MEGA and 100 of
4 6006 claims denied by MEGA during the time frame of the examination and found as
5 follows:

6 a. MEGA failed to send an acknowledgment of the claim to 121
7 claimants within 10 working days of receipt of the initial notice of the claim.

8 b. MEGA failed to accept or deny 138 claims within 15 working days
9 of receipt of a properly executed proof of loss.

10 c. MEGA failed to advise 136 claimants within 15 working days of
11 receipt of the claim of the need for more time to investigate the claim.

12 d. MEGA failed to complete 146 claims investigations within 30 days
13 when it appeared from the facts that the investigation could reasonably have been
14 completed in that time.

15 e. MEGA failed on 35 of the 75 paid claims reviewed to pay interest
16 on claims not paid within 30 days of receipt of an acceptable proof of loss. Claims on
17 which the amount owing exceeded \$5.00 resulted in an underpayment of interest of
18 \$338.82.

19 **CONCLUSIONS OF LAW**

20 1. MEGA violated A.R.S. §20-461(A)(2) and A.A.C. R20-6-801(E)(3) by
21 failing to reply within ten working days to a claimant's pertinent communications that
22 reasonably suggest that a response is expected.

23 2. MEGA violated A.R.S. §20-2536(B) by failing to acknowledge formal
24 appeals within five business days of receipt.

25 3. MEGA violated A.R.S. §20-2536(E)(2) by failing to resolve all formal

1 appeals of denied claims within 60 days of receipt.

2 4. MEGA violated A.R.S. §20-2536(G) by failing to provide insureds whose
3 formal appeals were upheld notice of their right to proceed to an external independent
4 review.

5 5. MEGA violated A.R.S. §20-2108(A)(4) by failing to provide individuals
6 who had requested personal information related to an adverse underwriting decision of
7 the procedures by which the individual could request correction, amendment, or
8 deletion of the information.

9 6. MEGA violated A.R.S. §20-461(A)(2), A.A.C. R20-6-801(E)(1), and the
10 1993 Order by failing to acknowledge claims not paid within 10 working days of receipt
11 of the notice of the claim.

12 7. MEGA violated A.R.S. §20-461(A)(5), A.A.C. R20-6-801(G)(1)(a), and the
13 1993 Order by failing to accept or deny claims within 15 working days of receipt of a
14 properly executed proof of loss.

15 8. MEGA violated A.R.S. §20-461(A)(3) and A.A.C. R20-6-801(G)(1)(b) by
16 failing within fifteen working days after receipt of the proofs of loss to advise the
17 claimant of the need for more time to determine whether a first party claim should be
18 accepted or denied.

19 9. MEGA violated A.R.S. § 20-461(A)(3), A.A.C. R20-6-801(F), and the
20 1993 Order by failing to complete investigation of a claim within 30 days after
21 notification of claim, where the evidence demonstrated that the investigation could
22 reasonably be completed within such time.

23 10. MEGA violated A.R.S. §20-462(A) by failing to pay interest on claims not
24 paid within 30 days of receipt of an acceptable proof of loss.

25 11. Grounds exist for the entry of the following Order in accordance with

1 A.R.S. §§ 20-220, 20-456 and 20-2117.

2 **ORDER**

3 **IT IS HEREBY ORDERED THAT:**

4 1. MEGA and its agents shall cease and desist from:

5 a. Failing to provide claimants an appropriate reply within 10 working
6 days of receipt of communications that reasonably suggest a response is expected.

7 b. Failing to acknowledge formal appeals within five business days of
8 their receipt.

9 c. Failing to resolve formal appeals of denied claims within 60 days
10 of receipt.

11 d. Failing to provide insureds whose formal appeals were upheld with
12 notice of their right to proceed to an external independent review.

13 e. Failing to provide applicants who were subject to an adverse
14 underwriting decision with a summary of the procedures to request correction,
15 amendment or deletion of recorded personal information.

16 f. Failing to send acknowledgments of the receipt of a claim within
17 10 working days of receipt.

18 g. Failing to accept or deny claims within 15 working days of receipt
19 of properly executed proof of loss.

20 h. Failing to advise claimants within 15 working days of receipt of a
21 claim of the need for more time to investigate the claim.

22 i. Failing to complete claims investigations within 30 days when it
23 appears that the investigation could reasonably be completed in that time.

24 j. Failing to pay interest at the legal rate on claims not paid within 30
25 days of receipt of an acceptable proof of loss.

1 2. Within 90 days of the filed date of this Order, MEGA shall submit to the
2 Arizona Department of Insurance, for approval, evidence that corrections have been
3 implemented and communicated to the appropriate personnel regarding all of the items
4 mentioned in Paragraph 1 of the Order section of this Consent Order. Evidence of
5 corrective action and communication thereof includes but is not limited to memos,
6 bulletins, E-mails, correspondence, procedure manuals, print screens and training
7 materials.

8 3. Within 90 days of the filed date of this Order, MEGA shall pay interest at
9 the rate of 10% per annum on the claims listed in Exhibit A of this Order. Each
10 payment shall include a letter to the insured in a form previously approved by the
11 Director. A list of payments, giving the name and address of each party paid, the
12 amount of interest paid, and the date of payment, shall be provided to the Department
13 within 90 days of the filed date of this Order.

14 4. The Department shall be permitted, through authorized representatives,
15 to verify that Respondent has complied with all provisions of this Order.

16 5. MEGA Life and Health Insurance Company shall pay a civil penalty of
17 \$25,000 to the Director for remission to the State Treasurer for deposit in the State
18 General Fund in accordance with A.R.S. §20-220(B). The civil penalty shall be
19 provided to the Market Conduct Examination Section of the Department prior to the
20 filing of this Order.

21 6. The June 2, 2000 Report of Examination and the letter of objection to
22 the Report filed by MEGA shall be filed with the Department after this Order is issued.

23 DATED this 24th day of May, 2001.

24
25 

Charles R. Cohen
Director of Insurance

EXHIBIT A

INTEREST OWED ON CLAIMS PAID MORE THAN 30 DAYS AFTER
RECEIPT OF PROOF OF LOSS

				Amount	Interest
	<u>Claim No.</u>	<u>Certificate No.</u>	<u>Date Paid</u>	<u>Paid</u>	<u>Due</u>
	M51142101	AL7110809	02/18/99	\$2,552.64	\$77.63
	O71907202	097324293	02/26/99	\$2,455.16	\$37.67
	O99493302	097324552	04/27/99	\$1,192.50	\$32.34
	P57192101	097324548	08/27/99	\$2,601.60	\$27.09
	M54010401	AL7129627	02/23/99	\$938.08	\$26.99
	P27272202	097325931	07/26/99	\$1,847.00	\$22.77
	O71419306	097324527	04/02/99	\$1,527.81	\$20.93
	O59335602	097326024	01/20/99	\$653.14	\$14.85
	P80224602	AL7110809	11/12/99	\$988.00	\$11.37
	P75119303	AL7110809	11/01/99	\$1,000.00	\$9.59
	M54223901	AL7139946	01/14/99	\$558.20	\$8.87
	P92115701	097324976	11/05/99	\$505.68	\$8.17
	P89142002	AL7113142	12/13/99	\$566.10	\$8.06
	P58290801	AL7108923	09/27/99	\$683.52	\$7.87
	M60593301	AL7116258	02/08/99	\$762.95	\$6.69
	M51903001	AL7134832	01/21/99	\$339.41	\$6.60
	M60594401	AL7169049	02/26/99	\$441.03	\$6.04
	M61879301	AL7200202	03/02/99	\$386.10	\$5.29
	Total 18				\$338.82

CONSENT TO ORDER

1. The MEGA Life and Health Insurance Company has reviewed the foregoing Order.

2. The MEGA Life and Health Insurance Company admits the jurisdiction of the Director of Insurance, State of Arizona, admits the foregoing Findings of Fact, and consents to the entry of the Conclusions of Law and Order.

3. The MEGA Life and Health Insurance Company is aware of the right to a hearing, at which it may be represented by counsel, present evidence and cross-examine witnesses. The MEGA Life and Health Insurance Company irrevocably waives the right to such notice and hearing and to any court appeals related to this Order.

4. The MEGA Life and Health Insurance Company states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Consent Order and that it has entered into this Consent Order voluntarily.

5. The MEGA Life and Health Insurance Company acknowledges that the acceptance of this Order by the Director of the Arizona Department of Insurance is solely for the purpose of settling this matter and does not preclude any other agency or officer of this state or its subdivisions or any other person from instituting proceedings, whether civil, criminal, or administrative, as may be appropriate now or in the future.

6. WILLIAM J. O'CONNOR, who holds the office of VICE PRESIDENT GOVT RELATIONS & REGULATORY AFFAIRS of The MEGA Life and Health Insurance Company, is authorized to enter into this Order for it and on its behalf.

The MEGA Life and Health Insurance Company

5-21-01
(Date)

By: 

1 COPY of the foregoing mailed/delivered

2 This 25th day of May 2001, to:

3
4 Sara Begley

Deputy Director

5 Mary Butterfield

Assistant Director

6 Consumer Affairs Division

Paul Hogan

7 Chief Market Conduct Examiner

Market Conduct Examinations Section

8 Deloris E. Williamson

Assistant Director

9 Rates & Regulations Division

10 Steve Ferguson

Assistant Director

11 Financial Affairs Division

Alexandra Shafer

12 Assistant Director

Life and Health Division

13 Nancy Howse

Chief Financial Examiner

14 Terry Cooper

Fraud Unit Chief

15
16 DEPARTMENT OF INSURANCE

2910 North 44th Street, Second Floor

17 Phoenix, AZ 85018

18 THE MEGA LIFE AND HEALTH INSURANCE COMPANY

19 William O'Connor, Vice President

4001 McEwen Road, Suite 200

20 Dallas, Texas 75244

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